

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 ERDA-07 AID-05 CEA-01 CIAE-00 CIEP-02

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-03

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SP-02 SS-15 STR-04 TRSE-00 ACDA-10 PA-02 PRS-01 FTC-01

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 1786

UNCLAS SECTION 1 OF 2 OTTAWA 4734

E.O. 11652: N/A

TAGS: EMIN, ENRG, ETRD, CA

SUBJECT: "A PRESPECTIVE ON NATIONAL RESOURCE POLICY:" SPEECH BY
GORDON M. MACNABB, DEPUTY MINISTER, DEPARTMENT OF ENERGY
MINES AND RESOURCES (EMR)

1. SUMMARY AND COMMENT: MACNABB REVIEWED CURRENT PROBLEM AREAS
IN CANADA - U.S. RESOURCE TRADE: OIL AND NATURAL GAS EXPORTS,
SASKATCHEWAN POTASH AND U.S. ANTI-TRUST ACTION AGAINST URANIUM
PRODUCERS. HE BROKE LITTLE NEW GROUND IN DISCUSSING THESE
PROBLEMS, BUT HIS STATEMENT THAT THE GOC MIGHT TAKE ADDITIONAL
ACTION TO BLOCK FURTHER USG MOVES IN THE URANIUM ANTI-TRUST CASE
IS WORTH NOTING. ALSO SIGNIFICANT IS HIS STATEMENT THAT NATURAL
GAS EXPORTS WILL PROBABLY NOT BE CURTAILED FOR AT LEAST THE
NEXT TWO OR THREE YEARS. MACNABB STRESSED THAT FUTURE CANADA-
U.S. RESOURCE TRADE WOULD BE MORE OF A BARGAINING PROCESS.
MACNABB ADDED EMPHASIS TO THIS POINT BY LINKING GOC AGREEMENT TO
EXPANSION OF OIL SWAPS FOR CANADIAN DEPENDENT NORTHERN TIER
REFINERIES TO ASSURANCES OF AN EXPANDED U.S. MARKET FOR CANADIAN
HEAVY CRUDE. END SUMMARY.

2. SPEAKING ON NOVEMBER 9 AT TORONTO TO THE CONFERENCE BOARD OF
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CANADA'S CONFERENCE ON CANADA-U.S. RELATIONS, DEPUTY MINISTER
MACNABB REVIEWED RECENT DEVELOPMENTS IN BILATERAL ENERGY AND

MINERAL TRADE AND COMMENTED ON PROBLEMS THAT HAVE DEVELOPED IN THIS RELATIONSHIP. THE FOLLOWING PARAGRAPHS OUTLINE MAIN ELEMENTS OF THE SPEECH.

3. MACNABB SAID THAT CURRENT PROBLEMS IN CANADA-U.S. ENERGY AND MINERAL TRADE ARE CENTERED IN OIL AND NATURAL GAS EXPORTS, POTASH AND URANIUM.

A. OIL AND GAS EXPORTS: THE PROBLEM IS A SIMPLE ONE. BEFORE THESE COMMODITIES CAN BE EXPORTED, CANADA'S ENERGY POLICY REQUIRES FULL PROTECTION OF FORESEEABLE DOMESTIC REQUIREMENTS. THEREFORE, NO NEW GAS EXPORT REQUESTS HAVE BEEN APPROVED SINCE 1970. OIL EXPORTS WHICH, UNLIKE GAS, HAVE ALWAYS BEEN ON A SHORT-TERM BASIS, WILL BE PHASED OUT BY THE EARLY 1980'S.

-- SOME U.S. PURCHASERS MUST ACCEPT THE SIMPLE FACT THAT CANADA CANNOT EXPORT A NON-EXISTING SURPLUS. ALTHOUGH THE DOWNWARD SUPPLY TREND FOR NATURAL GAS MIGHT BE REVERSED BY NEW DISCOVERIES, THE SUPPLY PROBLEM WILL GET WORSE IN THE MEANTIME, ALTHOUGH CANADA WILL NOT HAVE TO BEGIN CURTAILING EXPORT CONTRACTS (OTHER THAN CURRENT PROBLEMS IN THE WEST COAST SYSTEM) FOR AT LEAST THE NEXT TWO TO THREE YEARS.

-- CANADIAN NATURAL GAS PRICING POLICY HAS DAMPENED RAPID GROWTH IN CONSUMPTION AND STIMULATED VERY ACTIVE EXPLORATION IN THE WEST. WHILE THIS POLICY HAS BENEFITED CANADIANS, IT HAS ALSO RESULTED IN NO FURTHER CURTAILMENT OF EXPORTS FOR THE NEAR-TERM AND INCREASED REVENUES TO PRODUCERS WHICH WILL HELP PROMOTE DISCOVERY OF NEW RESERVES.

-- THE U.S. HAS BEEN SLOW IN ADJUSTING NATURAL GAS PRICES UPWARD AND HAS THEREFORE COMPOUNDED ITS SUPPLY PROBLEM. FORTUNATELY, INITIATIVES ARE UNDERWAY TO RAISE THE AVERAGE U.S. PRICE.

-- NEVERTHELESS, GAS PRICING WILL BE AN IRRITANT FOR SEVERAL YEARS AS THE CANADIAN DOMESTIC GAS PRICE IS PEGGED TO DOMESTIC OIL PRICES, WHILE THE EXPORT PRICE RELATES TO ALTERNATIVE FUEL PRICES IN THE U.S. MARKET.

B. POTASH OWNERSHIP: THE FEDERAL GOVERNMENT IS NOT DIRECTLY INVOLVED IN THIS PROBLEM. NEVERTHELESS, THE DISPUTE BETWEEN THE PROVINCE OF SASKATCHEWAN AND THE POTASH INDUSTRY HAS DELAYED EXPANSION OF THE INDUSTRY AND COULD HAVE AN IMPACT ON OTHER INDUSTRIES OUTSIDE SASKATCHEWAN SO FEDERAL OFFICIALS HAVE KEPT A
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CLOSE WATCH ON THE SITUATION.

-- THE NAMING BY THE U.S. GRAND JURY OF PROMINENT CANADIANS AS CO-CONSPIRATORS IN AN ANTI-TRUST ACTION NATURALLY PROVOKES RESENTMENT IN CANADA.

-- THE POTASH ISSUE HAS THUS BECOME ONE OF CONSIDERABLE DIFFICULTY IN CANADA-U.S. RELATIONS, PARTICULARLY BECAUSE OF SASKATCHEWAN GOVERNMENT INITIATIVES.

C. URANIUM PRICING: IN PURSUING ITS INVESTIGATIONS OF POSSIBLE PRICE FIXING IN THE URANIUM INDUSTRY, THE U.S. JUSTICE DEPARTMENT HAS SOUGHT INFORMATION FROM COMPANIES OPERATING IN CANADA WHO WERE

ACTING DURING 1972-1975 WITHIN GUIDELINES LAID DOWN BY THE CANADIAN GOVERNMENT. ACCORDINGLY, THE CANADIAN GOVERNMENT ESTABLISHED REGULATIONS ON SEPTEMBER 22, 1976, TO PREVENT REMOVAL FROM CANADA OF INFORMATION RELATING TO URANIUM MARKETING ACTIVITIES DURING THAT TIME. RECENT EVENTS FLOWING FROM THE WESTINGHOUSE ACTION AGAINST PRODUCERS SUGGEST THAT EVEN FURTHER STEPS MAY BE REQUIRED TO PROTECT CANADIAN COMPANIES.

-- THESE RECENT DEVELOPMENTS RELATING TO URANIUM CONTAIN THE MAKINGS OF A SERIOUS IMPEDIMENT TO HARMONIOUS RESOURCE TRADE BETWEEN OUR TWO COUNTRIES. U.S. GOVERNMENT OFFICIALS SHARE THIS CONCERN. HOWEVER, ONCE ANTI-TRUST INVESTIGATIONS COMMENCE THEY RUN THEIR COURSE. IN THE MEANTIME CANADA AND THE U.S. MUST KEEP COOL, PROTECT THEIR RESPECTIVE INTERESTS, AND TRY TO DEVELOP THE UNDERSTANDING AND SENSITIVITY THAT WILL AVOID SIMILAR PROBLEMS IN THE FUTURE.

4. TURNING TO THE OUTLOOK FOR RESOURCE SHARING, MACNABB SAID THAT THE CANADA-U.S. RELATIONSHIP ALTHOUGH IT REMAINS "SPECIAL" IS CHANGING AND BECOMING MORE COMPLEX. HE DESCRIBED THE POSSIBLE FUTURE OF RESOURCE SHARING IN TERMS OF THE FOLLOWING ISSUES AND OPPORTUNITIES:

A. NATURAL GAS:

-- CANADA WILL CONTINUE TO TAKE ALL REASONABLE STEPS TO PREVENT ANY FURTHER CURTAILMENT OF EXPORTS. CANADA WILL CONSULT CLOSELY WITH THE UNITED STATES OVER THE COMING MONTHS WHEN MAJOR DECISIONS MUST BE MADE ON PIPELINES WHICH COULD EASE OUR RESPECTIVE SUPPLY PROBLEMS. IF NEW SUPPLIES COME ON STREAM WHICH ARE BEYOND IMMEDIATE CANADIAN NEEDS, THE GOC WILL EXPLORE THE PROSPECTS FOR LOANING GAS, WITH REPAYMENT IN KIND LATER.

-- THERE IS NO IMMEDIATE SOLUTION IN SIGHT FOR THE PROBLEMS CAUSED BY THE DIFFERENTIAL BETWEEN DOMESTIC CANADIAN PRICES AND
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EXPORT PRICES. HOWEVER, USG ACTIONS TO ALLOW THE PRICE OF INTER-STATE GAS TO RISE AND THE CONTINUING INDEXING OF GAS PRICES IN CANADA TO THOSE OF OIL, SHOULD HELP EASE THE PROBLEM.

B. OIL: CANADIAN POLICY OF REDUCING RELIANCE ON IMPORTS TO ONE-THIRD OF TOTAL REQUIREMENTS BY 1985 HAS SET A DIFFICULT TARGET.

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-- THERE ARE A NUMBER OF POSSIBILITIES FOR COOPERATION WITH THE U.S.: EXPANSION OF OIL SWAPPING ARRANGEMENTS ALREADY IN PLACE TO AID CANADIAN DEPENDENT REFINERIES IN THE NORTHERN TIER OF THE U.S. CAN BE EXPLORED. CANADIAN EXPORT POLICIES CAN BE REVIEWED TO SEE IF SPECIAL CONSIDERATION MIGHT BE GIVEN TO THESE REFINERIES UNTIL THEY HAVE ALTERNATE SUPPLIES. THIS COULD BE COUPLED WITH ASSURANCE OF A MARKET FOR CANADIAN HEAVY OILS SO THAT INDUSTRY CAN EXPAND TO A SCALE WHERE IT CAN SUPPORT PROCESSING PLANTS WHICH WOULD THEN SERVE THE CANADIAN MARKET.

-- THE KITIMAT PIPELINE PROPOSAL CAN BE REVIEWED AS AN ALTERNATIVE SUPPLY SOURCE FOR THE NORTHERN TIER REFINERIES, TAKING INTO CONSIDERATION NOT ONLY ENVIRONMENTAL DANGERS BUT ALSO SHORT AND LONG-TERM BENEFITS FOR BOTH COUNTRIES.

-- CANADA AND THE U.S. CAN EXPLORE JOINT EMERGENCY OIL STORAGE PROPOSALS.

-- THE TWO GOVERNMENTS CAN WORK CLOSER ON R & D ACTIVITIES SUCH AS THOSE AIMED AT EFFICIENT "IN SITU" RECOVER OF CANADA'S TREMENDOUS RESOURCES OF OIL SANDS AND HEAVY OILS.

C. URANIUM:

-- THIS AREA MAY CONTINUE TO BE A SORE POINT, BUT THERE IS POTENTIAL FOR INCREASED EXPORTS TO THE U.S. HOWEVER, U.S.

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CONSUMERS WILL HAVE TO COMPETE WITH THE EUROPEANS AND JAPANESE.

D. COAL:

-- CANADA RECOGNIZES THE POTENTIAL FOR INCREASED U.S. DOMESTIC DEMANDS FOR ITS COAL AND IS TAKING STEPS TO OPEN UP WESTERN CANADIAN SUPPLIES FOR THE ONTARIO MARKET. IF THERE IS TO BE A TRANSITION IN SUPPLY THE TWO GOVERNMENTS SHOULD WORK TOGETHER TO MAKE IT AN EASY ONE.

E. ELECTRICITY: THERE WILL NEVER BE A MAJOR NET FLOW OF ELECTRICITY IN EITHER DIRECTION, BUT EXPORT ARRANGEMENTS OFFER AN OPPORTUNITY FOR MUTUAL BENEFIT. HERE THE FLOW OF A COMMODITY CAN BE TRULY TWO DIRECTIONAL.

5. CONCLUDING, MACNABB STRESSED THAT A SPIRIT OF COOPERATION WILL BE MORE SIGNIFICANT IN A PERIOD OF SHORT SUPPLY. THE U.S. AND CANADA WILL HAVE TO OVERCOME THE AGGRAVATIONS OF THE PAST, BOTH FABRICATED AND REAL. AND THE UNITED STATES WILL HAVE TO ACCEPT A STRONGER DISPOSITION BY CANADIANS TO EXPORT THEIR ENERGY AND MINERAL RESOURCES IN MORE HIGHLY PROCESSED FORMS. SHARING OF RESOURCES IN THE FUTURE WILL BE FAR MORE A BARGAINING PROCESS THAN IT HAS BEEN IN THE PAST.

6. EMBASSY POUCHING TEXT OF SPEECH TO DEPARTMENT BY AIRGRAM.
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